

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Memphis	County MaComb
Fiscal Year End June 30, 2007	Opinion Date August 20, 2007	Date Audit Report Submitted to State September 25, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

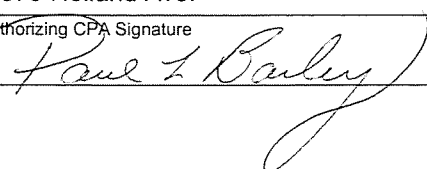
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 	Printed Name Paul L. Bailey		License Number 1101014088

**CITY OF MEMPHIS, MICHIGAN**

**ANNUAL FINANCIAL STATEMENTS**  
**with Supplementary Information**

**FOR THE YEAR ENDED**  
**JUNE 30, 2007**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



# CITY OF MEMPHIS, MICHIGAN

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Memphis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Memphis' management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2007 on our consideration of the City of Memphis' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 32 through 34 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Memphis' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants

August 20, 2007

**OVERVIEW OF THE FINANCIAL STATEMENTS**

City of Memphis's 2007 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.

***Government-wide Financial Statements***

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the City's net assets and how they have changed. Net assets, defined as the difference between the City's assets and liabilities, are one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into two categories:

**Governmental activities** – most of the City's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services provide most of the funding.

**Business-type activities** – the City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system is treated as a business-type activity.

***Fund Financial Statements***

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

**Governmental funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

**Proprietary funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

**Fiduciary Funds** – The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the City’s government-wide financial statements because the City cannot use these assets to finance its operations.

## **FINANCIAL OVERVIEW (Government-wide financial analysis)**

The City has combined total net assets of \$3.2 million. This is an increase of \$140,001 over 2006. Government-type activities comprise \$1.8 million, and business-type activities make up \$1.4 million of the total net assets. In a condensed format, the table below shows net assets as of the June 30, 2007 and 2006.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
<b>Assets</b>				
Current assets	\$ 924,526	\$ 748,367	\$ 440,074	\$ 404,982
Noncurrent assets	<u>1,026,560</u>	<u>1,108,769</u>	<u>1,678,009</u>	<u>1,726,209</u>
Total assets	<u>1,951,086</u>	<u>1,857,136</u>	<u>2,118,083</u>	<u>2,131,191</u>
<b>Liabilities</b>				
Current liabilities	60,357	31,223	11,829	3,257
Long-term liabilities	<u>108,388</u>	<u>157,187</u>	<u>681,689</u>	<u>752,297</u>
Total liabilities	<u>168,745</u>	<u>188,410</u>	<u>693,518</u>	<u>755,554</u>
<b>Net Assets</b>				
Invested in capital assets – Net of related debt	940,431	1,004,762	999,659	973,912
Restricted	420,400	199,573	-	-
Unrestricted	<u>421,510</u>	<u>464,391</u>	<u>424,906</u>	<u>401,725</u>
Total net assets	<u>\$ 1,782,341</u>	<u>\$1,668,726</u>	<u>\$ 1,424,565</u>	<u>\$ 1,375,637</u>

The City governmental activities experienced a net change in assets of \$91,073, or 12% of annual expenditures. The business-type activities experienced a net change in assets of \$48,928, or 7% of the annual expenditures.

The following table shows the changes in net assets for 2007 and 2006:

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 182,059	\$ 159,678	\$ 339,298	\$ 329,304
Operating grants and contributions	84,429	83,145	-	-
Capital grants and contributions	22,754	25,500	-	-
General revenue:				
Property taxes	389,936	372,743	-	-
State-shared revenue	111,993	114,829	-	-
Unrestricted investment earnings	39,903	15,232	15,744	18,659
Franchise fees and other	7,491	5,275	-	-
Gain on sale/retirement of assets	-	(4,115)	-	-
Total Revenue	<u>838,565</u>	<u>796,963</u>	<u>355,042</u>	<u>347,963</u>
<b>Program Expenses</b>				
General government	130,744	145,754	-	-
Public safety	348,456	351,431	-	-
Public works	226,206	157,434	-	-
Health and welfare	3,000	-	-	-
Recreation and cultural	30,498	33,342	-	-
Interest on debt	5,555	4,929	-	-
Water and sewer	-	-	309,147	298,278
Total Program Expenses	<u>744,459</u>	<u>692,890</u>	<u>309,147</u>	<u>298,278</u>
<b>Changes in net assets before transfers</b>	94,106	104,073	45,895	49,685
Transfers	( 3,033)	( 19,633)	3,033	19,633
<b>Changes in net assets</b>	<u>\$ 91,073</u>	<u>\$ 84,440</u>	<u>\$ 48,928</u>	<u>\$ 69,318</u>

### ***Governmental Activities***

Revenues for governmental activities totaled \$838,565 in 2007. Of this amount \$389,936 was received from taxes, an increase of \$17,193 over 2006. The next largest revenue sources were from charges for services of \$182,059, which was a \$22,381 increase from the prior year and state shared revenue of \$111,993, which remained fairly consistent between the years.

### ***Business-type Activities***

The City's business-type activities represent the Water and Sewer Enterprise Fund. The City provides water and sewer services to most, but not all residents. Total revenues, including a transfer from the General Fund, were \$358,075, and expenses were \$309,147 for a change in net assets of \$48,928.

## FINANCIAL ANALYSIS OF MAJOR CITY FUNDS AND BUDGETS

### *Governmental Funds*

The General Fund ended 2007 with a fund balance of \$424,085, with \$1,273 reserved for Parks and Recreation and \$7,180 designated for specific projects. This is an increase of \$88,178 from the prior year.

The City's other major governmental fund, the Major Street Fund, had a fund balance at June 30, 2007 of \$152,823, which was an increase of \$24,532 over 2006.

The budgets were amended throughout the year as deemed necessary, primarily to prevent over expenditure. There were no significant budget amendments during the year.

### *Proprietary Fund*

As indicated earlier the City only has one proprietary fund, and the water and sewer operations. Total revenues including a transfer from the General Fund were \$358,075, and expenses were \$309,147 for a change in net assets of \$48,928.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

The City had \$2.7 million dollars invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2007. The investment in capital assets includes land, land improvements, roads, buildings, machinery and equipment, vehicles and water and sewer lines.

During the year the City added \$18,868 of capital assets, all of which was in the governmental activities.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Land	\$ 38,000	\$ 38,000	\$ 11,355	\$ 11,355
Roads and sidewalks	347,373	347,373	-	-
Building	437,377	437,377	175,106	175,106
Equipment	525,315	509,648	177,982	177,982
Vehicles	453,935	465,077	-	-
Water and sewer	-	-	2,218,557	2,218,557
Construction in progress	-	-	-	-
	1,802,000	1,797,475	2,583,000	2,583,000
Accumulated depreciation	( 775,440)	( 688,706)	( 904,991)	( 856,791)
	<u>\$ 1,026,560</u>	<u>\$ 1,108,769</u>	<u>\$ 1,678,009</u>	<u>\$ 1,726,209</u>

Additional information on the City's capital assets can be found in Note 5.

### *Long-Term Debt*

At June 30, 2007 the City has outstanding debt totaling \$86,129 and \$678,350 in the governmental activities and business-type activities respectively, related to the acquisition of capital assets. This is a decrease of \$62,878 from 2006. During the year the City refinanced the 1991 G.O. Water Bonds by issuing \$585,000 of 2007 G.O. Refunding Bonds. The debt will be repaid through 2014. In addition, the City had \$25,898 of compensated absences, \$22,259 in the governmental activities and \$3,339 in the business-type activities.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City of Memphis, similar to most municipalities in the state of Michigan, continues to experience difficult financial times. The City currently levies the maximum amount of property taxes allowed under Proposal A and the Headlee Amendment, and has experienced reductions in state-shared revenues in recent years. While little or no growth has been experienced in revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of health insurance expenditures). The City has responded to this through a reduction of discretionary costs, principally capital outlay. The City expects this financial trend to continue in the near future.

## **CONTACTING THE CITY**

This financial report is designed to provide a general overview of the City's finances to our residents and other interested parties in understanding the City's financial condition. If you have questions about this report or need additional financial information, please contact the City at (810) 392-2385.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF MEMPHIS, MICHIGAN

## STATEMENT OF NET ASSETS

**JUNE 30, 2007**

	Governmental Activities	Business Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 832,175	\$ 348,572	\$ 1,180,747
Receivables	95,935	87,918	183,853
Internal balances	( 3,584)	3,584	-
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	38,000	11,355	49,355
Assets being depreciated	988,560	1,666,654	2,655,214
Total Assets	<u>1,951,086</u>	<u>2,118,083</u>	<u>4,069,169</u>
<b>LIABILITIES:</b>			
Payables and accrued liabilities	35,470	11,829	47,299
Accrued interest	3,887	-	3,887
Unearned revenue	21,000	-	21,000
Non-current liabilities			
Due within one year	18,858	99,956	118,814
Due in more than one year	89,530	581,733	671,263
Total Liabilities	<u>168,745</u>	<u>693,518</u>	<u>862,263</u>
<b>NET ASSETS:</b>			
Investment in capital assets, net of related liabilities	940,431	999,659	1,940,090
Restricted			
Streets	251,573	-	251,573
Acquisition/construction of capital assets	167,554	-	167,554
Other	1,273	-	1,273
Unrestricted	421,510	424,906	846,416
Total Net Assets	<u>\$ 1,782,341</u>	<u>\$ 1,424,565</u>	<u>\$ 3,206,906</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MEMPHIS, MICHIGAN

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General Government	\$ 130,744	\$ 46,451	\$ -	\$ -
Public Safety	348,456	79,674	1,159	18,254
Public Works	226,206	42,235	81,997	4,500
Health and Welfare	3,000	-	-	-
Recreation and Culture	30,498	13,699	1,273	-
Interest on Long Term Debt	5,555	-	-	-
Total governmental activities	<u>744,459</u>	<u>182,059</u>	<u>84,429</u>	<u>22,754</u>
Business type activities - water and sewer	<u>309,147</u>	<u>339,298</u>	<u>-</u>	<u>-</u>
Total	<u><u>1,053,606</u></u>	<u><u>521,357</u></u>	<u><u>84,429</u></u>	<u><u>22,754</u></u>

General revenues:

Taxes

State shared revenue

Franchise fees

Unrestricted investment income

Transfers In (out)

    Total general revenues and transfers

Change in net assets

Net assets at beginning of year

    Prior period adjustments

Net assets at beginning of year, restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		
Governmental Activities	Business Type Activities	Total
\$( 84,293)	\$ -	\$( 84,293)
( 249,369)	-	( 249,369)
( 97,474)	-	( 97,474)
( 3,000)	-	( 3,000)
( 15,526)	-	( 15,526)
( 5,555)	-	( 5,555)
( 455,217)	-	( 455,217)
-	30,151	30,151
( 455,217)	30,151	( 425,066)
389,936	-	389,936
111,993	-	111,993
7,491	-	7,491
39,903	15,744	55,647
( 3,033)	3,033	-
546,290	18,777	565,067
91,073	48,928	140,001
1,668,726	1,375,637	3,044,363
22,542	-	22,542
1,691,268	1,375,637	3,066,905
\$ 1,782,341	\$ 1,424,565	\$ 3,206,906

# CITY OF MEMPHIS, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2007

	General	Major Street	Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 428,858	\$ 143,479	\$ 259,838	\$ 832,175
Receivables				
Interest and accounts	19,134	-	-	19,134
Due from other governmental units				
Federal/State	38,438	9,838	3,025	51,301
Local	25,500	-	-	25,500
Due from other funds	1,019	-	3,497	4,516
	<u>512,949</u>	<u>153,317</u>	<u>266,360</u>	<u>932,626</u>
Total Assets	<u>\$ 512,949</u>	<u>\$ 153,317</u>	<u>\$ 266,360</u>	<u>\$ 932,626</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 16,838	\$ 170	\$ -	\$ 17,008
Accrued liabilities	18,185	221	56	18,462
Due to other funds	7,997	103	-	8,100
Deferred revenue	45,844	-	-	45,844
	<u>88,864</u>	<u>494</u>	<u>56</u>	<u>89,414</u>
Total Liabilities	<u>88,864</u>	<u>494</u>	<u>56</u>	<u>89,414</u>
<b>Fund Balances:</b>				
Reserved -				
Parks & Rec	1,273	-	-	1,273
Capital Projects	-	-	167,554	167,554
Unreserved -				
Designated	7,180	-	-	7,180
Undesignated -				
General Fund	415,632	-	-	415,632
Special Revenue Funds	-	152,823	98,750	251,573
Total Equity	<u>424,085</u>	<u>152,823</u>	<u>266,304</u>	<u>843,212</u>
	<u>512,949</u>	<u>153,317</u>	<u>266,360</u>	<u>932,626</u>
Total Liabilities and Fund Equity	<u>\$ 512,949</u>	<u>\$ 153,317</u>	<u>\$ 266,360</u>	<u>\$ 932,626</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MEMPHIS, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
JUNE 30, 2007**

Fund Balances - total governmental funds		\$	843,212
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			1,802,000
Accumulated depreciation		(	775,440)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
State shared revenue	20,344		
CDBG Funding	<u>4,500</u>		24,844
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds/notes payable	( 86,129)		
Compensated absences	<u>( 22,259)</u>	(	108,388)
Accrued interest payable is not included as a liability in the governmental funds			<u>( 3,887)</u>
Net Assets of governmental activities		\$	<u><u>1,782,341</u></u>

The notes to the financial statements are an integral part of this statement.

# CITY OF MEMPHIS, MICHIGAN

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	General	Major Street	Other Governmental Fund	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 389,936	\$ -	\$ -	\$ 389,936
Licenses and permits	12,530	-	22,022	34,552
Intergovernmental -				
Federal/State	133,126	59,975	-	193,101
Local	26,773	-	-	26,773
Charges for services	154,647	-	-	154,647
Fines and forfeits	2,015	-	-	2,015
Interest and rent	24,886	5,450	10,867	41,203
Other	19,058	-	-	19,058
Total Revenues	<u>762,971</u>	<u>65,425</u>	<u>32,889</u>	<u>861,285</u>
<b>Expenditures:</b>				
Current -				
General Government	126,636	-	-	126,636
Public Safety	314,118	-	-	314,118
Public Works	149,573	25,893	16,759	192,225
Health and Welfare	3,000	-	-	3,000
Recreation and Cultural	22,536	-	-	22,536
Debt Service -				
Principal	17,878	-	-	17,878
Interest	5,938	-	-	5,938
Total Expenditures	<u>639,679</u>	<u>25,893</u>	<u>16,759</u>	<u>682,331</u>
Excess of revenues over (under) expenditures	<u>123,292</u>	<u>39,532</u>	<u>16,130</u>	<u>178,954</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	1,696	-	48,777	50,473
Transfers to other funds	( 36,810)	( 15,000)	( 1,696)	( 53,506)
Total Other Financing Sources (Uses)	<u>( 35,114)</u>	<u>( 15,000)</u>	<u>47,081</u>	<u>( 3,033)</u>
Net Change in Fund Balances	<u>88,178</u>	<u>24,532</u>	<u>63,211</u>	<u>175,921</u>
Fund Balances at beginning of year	345,804	123,218	204,828	673,850
Prior period adjustments	<u>( 9,897)</u>	<u>5,073</u>	<u>( 1,735)</u>	<u>( 6,559)</u>
Fund Balances at beginning of year as restated	<u>335,907</u>	<u>128,291</u>	<u>203,093</u>	<u>667,291</u>
Fund Balances at end of year	<u>\$ 424,085</u>	<u>\$ 152,823</u>	<u>\$ 266,304</u>	<u>\$ 843,212</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MEMPHIS, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2007**

Net change in fund balances - total governmental funds		\$	175,921
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	18,868		
Depreciation expense	( 96,296)		
Loss on sale/disposal of capital assets	<u>( 4,781)</u>	(	82,209)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
		(	22,720)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	17,878		
Decrease in accrued interest	<u>383</u>		18,261
Decrease in accrued sick and vacation are reported as expenditures when financial resources are used in the governmental funds			
			<u>1,820</u>
Change in net assets of governmental activities		\$	<u>91,073</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MEMPHIS, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND - WATER/SEWER FUND  
JUNE 30, 2007**

**ASSETS:**

**Current Assets:**

Cash and cash equivalents	\$ 348,572
Accounts and interest receivable	87,918
Due from other funds	4,500
Total Current Assets	<u>440,990</u>

**Property, Plant and Equipment:**

Property, plant and equipment	2,583,000
Less - accumulated depreciation	( 904,991)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>1,678,009</u>
Total Assets	<u>2,118,999</u>

**LIABILITIES:**

**Current Liabilities:**

Accounts payable	3,590
Accrued expenses	8,239
Bonds/Notes payable (current portion)	99,956
Due to other funds	916
Total Current Liabilities	<u>112,701</u>

**Long-Term Liabilities (net of current portions):**

Accrued vacation and sick	3,339
Notes payable (net of current portion)	578,394
Total Long-Term Liabilities	<u>581,733</u>
Total Liabilities	<u>694,434</u>

**NET ASSETS:**

Investment in capital assets, net of related liabilities	999,659
Unrestricted	424,906
Total Net Assets	<u>\$ 1,424,565</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MEMPHIS, MICHIGAN

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUND - WATER/SEWER FUND FOR THE YEAR ENDED JUNE 30, 2007

### Operating Revenues:

Water charges	\$ 104,049
Sewage disposal charges	92,393
Other	5,676
	<u>202,118</u>

### Operating Expenses:

Wages and fringes	131,923
Supplies	8,595
Utilities	1,992
Repairs and maintenance	7,967
Equipment rental	12,554
Contracted services	24,102
Insurance	2,410
Miscellaneous	1,810
Depreciation	48,200
Total Operating Expenses	<u>239,553</u>

Operating Loss	<u>( 37,435)</u>
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### Non-Operating Revenues (Expenses):

Interest earned	15,744
Interest expenses	( 69,594)
Debt service fees	137,180
Total Non-Operating Revenues (Expenses)	<u>83,330</u>

Net Income before transfers	45,895
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Other Financing Sources - Transfers In	<u>3,033</u>
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Change in Net Assets	48,928
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Net Assets at beginning of year	<u>1,375,637</u>
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Net Assets at end of year	<u><u>\$ 1,424,565</u></u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF MEMPHIS, MICHIGAN

## STATEMENT OF CASH FLOWS PROPRIETARY FUND - WATER/SEWER FUND FOR THE YEAR ENDED JUNE 30, 2007

### Cash Flows From Operating Activities:

Cash receipts from customers	\$ 203,312
Cash payments to suppliers	( 59,097)
Cash payments to employees	( 124,790)
Net Cash Provided by Operating Activities	<u>19,425</u>

### Cash Flows From Noncapital Financing Activities:

Due (from)/to other funds	26,416
Operating transfers from other funds	<u>3,033</u>
Net Cash Provided by Noncapital Financing Activities	<u>29,449</u>

### Cash Flows From Capital and Related Financing Activities:

Bond/Note payments	( 658,947)
Bond proceeds	585,000
Interest Paid on long term debt	( 65,149)
Collection of debt service fees	<u>137,180</u>
Net Cash Used by Capital and Related Financing Activities	<u>( 1,916)</u>

### Cash Flows From Investing Activities:

Interest earned	<u>15,744</u>
Net Cash Provided by Investing Activities	<u>15,744</u>

Net Increase in Cash and Cash Equivalents for the year	62,702
Cash and Cash Equivalents at Beginning of Year	<u>285,870</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 348,572</u></u>

### Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating loss for the year	\$( 37,435)
Adjustments to reconcile operating loss to net cash provided by operating activities -	
Depreciation	48,200
Change in assets and liabilities:	
Receivables	1,194
Accounts payable/accrued expenses	<u>7,466</u>
Net Cash Provided by Operating Activities	<u><u>\$ 19,425</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MEMPHIS, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**TAX RECEIVING FIDUCIARY FUND**  
**JUNE 30, 2007**

**ASSETS:**

Cash and cash equivalents	<u>\$ 14,419</u>
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**LIABILITIES:**

Undistributed taxes	<u>\$ 14,419</u>
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**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

The accounting methods and procedures adopted by City of Memphis, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the City's Financial Statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity –**

The City of Memphis, Michigan, a municipal corporation, was organized as a Township in 1837, and operates under the provisions of the constitution and general law of the State of Michigan. The Township is one of twelve (12) Townships in Macomb County and covers an area of approximately 26 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer and two Trustees, and provides services to its more than 5,000 residents in many areas including police, fire protection and roads.

**B. Government-wide and fund financial statements –**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

*Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1, and due on August 31, are recognized as revenue in the year due. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** – is a special revenue fund used to account for Act 51 money restricted for major streets maintenance and improvements.

The City reports the following major proprietary funds:

**Water & Sewer Fund** – is used to account for the treatment and distribution of water and sanitary sewer services to residential and commercial users.

Additionally, the City reports the following fund types –

**Special Revenue Fund** – is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Capital Projects Funds** – are used to account for revenue restricted for the acquisition and/or construction of capital assets not being financed by proprietary funds.

**Agency Fund** – is used to account for collection and distribution of taxes. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Fund are charges to customers for sale and services. Operating expenses from the Enterprise Fund include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources, as they are needed.

**D. Assets, Liabilities and Net Assets or Equity –**

**Deposits and Investments –**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition and investment trust accounts. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

For the purpose of the Statement of Cash Flows presented for the Proprietary Fund Type, the City considers all highly liquid investments (including restricted assets) with original maturities of ninety days or less to be cash equivalents.

**Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Prepaid Items –**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Property Tax Calendar –**

Taxes are levied on July 1 and are payable at that time. The City bills and collects its own property taxes and also collects taxes for Macomb and St. Clair Counties, the intermediate school district, community college, library and local school district. Collections of all taxes other than City taxes and the remittance of them are accounted for in the Agency Fund.

The City is permitted by state statute to levy taxes of 14.3889 mills for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The City levied 14.3889 mills for general governmental purposes.

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Buildings and improvements	20
Utility systems	20-70
Machinery and equipment	10-40
Vehicles	10-20
Roads and sidewalks	20

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Compensated Absences –**

In accordance with contracts negotiated with the various employed groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts.

**Long-Term Obligations –**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity–**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates –**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1.) Prior to June 30, the City Clerk/Treasurer submits to the City Council, a proposed operating budget for the fiscal year beginning the following July 1. The operating budgets include proposed expenditures and the means of financing them.
- 2.) A Public Hearing is conducted to obtain taxpayers' comments.
- 3.) Prior to June 30, the budget is legally enacted through passage of a motion after the public hearing. The budgets are legally enacted at the account level.
- 4.) Any amendments to the budget must be approved by the City Council.
- 5.) Formal budgetary integration is employed as a management control device during the year.

**Excess of Expenditures Over Appropriations –**

During the year the City incurred expenditures in excess of the amount appropriated in a number of accounts. A detailed printout of each variance can be obtained/reviewed at the City Hall. As a summary the departments/activities that had expenditures in excess of the amounts appropriated are as follows:

<u>Fund Type/Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Clerk/Treasurer	\$ 89,696	\$ 90,348	652
Refuse Collection	42,035	42,944	909
Parks and recreation	12,833	12,951	118
Library	9,560	9,585	25
Transfers Out	27,141	36,810	9,669

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

As of June 30, 2007, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits -			
Petty Cash	\$ 149	\$ -	\$ 149
Deposits with Financial Institutions	<u>58,480</u>	<u>14,419</u>	<u>72,899</u>
Total Deposits	<u>58,629</u>	<u>14,419</u>	<u>73,048</u>
Investments -			
Investment Trust Funds	<u>1,122,118</u>	<u>-</u>	<u>1,122,118</u>
Grand Total – Reported as cash and cash equivalents	<u>\$ 1,180,747</u>	<u>\$ 14,419</u>	<u>\$ 1,195,166</u>

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

The City's investment policy primary objectives are foremost safety of principle, followed by diversification, maintaining adequate liquidity and return on investment. The City's Treasurer is responsible for the investing of the City funds in accordance with the City investment policy.

**Deposits –**

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

***Custodial credit risk-Deposits***-is the risk that in the event of a bank failure, the City's deposit may not be returned. As an indication of the level of deposit custodial credit risk assumed by the City, as of June 30, 2007, the bank balance of the City's deposits was \$127,489 of which \$100,000 was FDIC insured with the remaining balance of \$27,489 uninsured and uncollateralized.

**Investments –**

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188, investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

At June 30, 2007, the City was invested in the following types of investments:

	<u>Amount</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Average Days to Maturity</u>
Comerica Investment Trust Fund	\$ 80,735	Al, Pl, Fl	S & P's	20
LaSalle Bank Investment Trust Fund	1,041,383	AAAm	S & P's	8

The investment trust funds invest primarily in repurchase agreements, commercial paper, and U.S. Treasury securities.

***Custodial credit risk*** – is the risk that in the event of a failure of the counterparty, the City may not be able to recover the value of its investments that are in the possession of another party. The City's investment policy does not address custodial credit risk.

***Interest rate risk*** – is the risk that the market value of securities in the City's portfolio will fall due to changes in market interest increases. The City's investment policy does not address interest rate risk.

***Credit risk*** – is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limits the type of investments the City can purchase. The City's investment policy does not address credit risk.

***Concentration of credit risk*** – is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's investment policy specifies that investments shall be diversified by security type and institution in order that potential losses on individual securities does not exceed the income generated from the remainder of the portfolio. The City's investment policy does not address concentration of credit risk.

**NOTE 4 - RECEIVABLES:**

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Interest and accounts	\$ 19,134	\$ 87,918
Intergovernmental –		
Federal/State	51,301	-
Local	<u>25,500</u>	<u>-</u>
	<u>\$ 95,935</u>	<u>\$ 87,918</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 4 - RECEIVABLES – (cont'd):**

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
State Shared Revenue	\$ 20,344	\$ -
CDBG Revenue	<u>4,500</u>	<u>21,000</u>
	<u>\$ 24,844</u>	<u>\$ 21,000</u>

**NOTE 5 - CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the primary government for the year ended June 30, 2007 was as follows:

	<u>July 1, 2006 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007 Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	<u>\$ 38,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,000</u>
Capital assets being depreciated:				
Roads and sidewalks	347,373	-	-	347,373
Vehicles	465,077	3,201	14,343	453,935
Buildings	437,377	-	-	437,377
Machinery and equipment	<u>509,648</u>	<u>15,667</u>	<u>-</u>	<u>525,315</u>
Total capital assets being depreciated	<u>1,759,475</u>	<u>18,868</u>	<u>14,343</u>	<u>1,764,000</u>
Less accumulated depreciation:				
Roads and sidewalks	28,685	17,369	-	46,054
Vehicles	192,116	32,322	9,562	214,876
Buildings	221,278	10,649	-	231,927
Machinery and equipment	<u>246,627</u>	<u>35,956</u>	<u>-</u>	<u>282,583</u>
Total accumulated depreciation	<u>688,706</u>	<u>96,296</u>	<u>9,562</u>	<u>775,440</u>
Total capital assets being depreciated, net	<u>1,070,769</u>	<u>( 77,428)</u>	<u>4,781</u>	<u>988,560</u>
Governmental activities capital assets, net	<u>\$ 1,108,769</u>	<u>\$ ( 77,428)</u>	<u>\$ 4,781</u>	<u>\$ 1,026,560</u>
 <b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	<u>\$ 11,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,355</u>
Capital assets being depreciated:				
Utility System	2,218,557	-	-	2,218,557
Buildings and improvements	175,106	-	-	175,106
Machinery and equipment	<u>177,982</u>	<u>-</u>	<u>-</u>	<u>177,982</u>
	<u>2,571,645</u>	<u>-</u>	<u>-</u>	<u>2,571,645</u>
Less accumulated depreciation:				
Utility System	611,459	38,189	-	649,648
Buildings and improvements	108,556	2,814	-	111,370
Machinery and equipment	<u>136,776</u>	<u>7,197</u>	<u>-</u>	<u>143,973</u>
	<u>856,791</u>	<u>48,200</u>	<u>-</u>	<u>904,991</u>
Total capital assets being depreciated, net	<u>1,714,854</u>	<u>( 48,200)</u>	<u>-</u>	<u>1,666,654</u>
Business activities capital assets, net	<u>\$ 1,726,209</u>	<u>\$ ( 48,200)</u>	<u>\$ -</u>	<u>\$ 1,678,009</u>

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 5 - CAPITAL ASSETS – (cont'd):**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General Government	\$ 6,534
Public Safety	54,263
Public Works	27,537
Recreation and Cultural	<u>7,962</u>
	<u>\$ 96,296</u>
Business-type activities:	
Water/Sewer Fund	<u>\$ 48,200</u>

**NOTE 6 - PAYABLES:**

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 17,008	\$ 3,590
Accrued liabilities	<u>18,462</u>	<u>8,239</u>
	<u>\$ 35,470</u>	<u>\$ 11,829</u>

**NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:**

The composition of interfund balances as of June 30, 2007:

**Due To/From Other Funds –**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 103
	Water/Sewer Fund	<u>916</u>
		1,019
Local Street Fund	General Fund	3,497
Water/Sewer Fund	General Fund	<u>4,500</u>
		<u>\$ 9,016</u>

The advance represents an interfund loan for street improvements being paid back through CDBG funding.

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 7 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):**

**Transfers From/To Other Funds -**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Clerk/Treasurer Equipment Replacement Fund	\$ 1,046
	DPW Equipment Replacement Fund	650
Local Street Fund	Major Street Fund	15,000
DPW Equipment Replacement Fund	General Fund	10,026
Fire Department Equipment Replacement Fund	General Fund	22,751
Library Equipment Replacement Fund	General Fund	1,000
Water/Sewer Fund	General Fund	<u>3,033</u>
		<u>\$ 53,506</u>

**NOTE 8 - LONG-TERM LIABILITIES:**

The following is a summary of changes in the long-term debt (including current portions) of the Primary Government for the year ended June 30, 2007:

	(Restated) Balance July 1, 2006	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2007	Due Within One Year
<b><u>Governmental Activities:</u></b>					
Library Loan	\$ 85,531	\$ -	\$ 8,918	\$ 76,613	\$ 9,342
Police Vehicle Purchase Agreement	18,476	-	8,960	9,516	9,516
Accrued sick and vacation	<u>24,079</u>	<u>-</u>	<u>1,820</u>	<u>22,259</u>	<u>-</u>
Total Governmental Funds	<u>128,086</u>	<u>-</u>	<u>19,698</u>	<u>108,388</u>	<u>18,858</u>
<b><u>Business-type Activities:</u></b>					
1991 G.O. Water Bonds	630,000	-	630,000	-	-
2007 G.O. Refunding Bonds	-	585,000	-	585,000	70,000
2004 Arsenic Loan	122,297	-	28,947	93,350	29,956
Accrued Sick and Vacation	<u>-</u>	<u>3,339</u>	<u>-</u>	<u>3,339</u>	<u>-</u>
Total Business-type Activities	<u>752,297</u>	<u>588,339</u>	<u>658,947</u>	<u>681,689</u>	<u>99,956</u>
Total Primary Government	<u>\$ 880,383</u>	<u>\$ 583,339</u>	<u>\$ 678,645</u>	<u>\$ 790,077</u>	<u>\$ 118,814</u>

# CITY OF MEMPHIS, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

### NOTE 8 - LONG-TERM LIABILITIES – (cont'd):

Significant detail regarding outstanding long-term debt (including current portions) are presented as follows:

#### **Library Building General Obligation Loan:**

The City borrowed \$154,000 in 2001 to finance the purchase and improvements to the library. Payments of \$13,712 are due annually through August of 2013 including interest at 5.7%.

\$ 76,613

#### **Police Vehicle Purchase Agreement:**

The City entered into a lease/purchase agreement in January 2006 for the purchase of a vehicle. Payments of \$10,105 are due annually through January 2008 including interest at 6.2%. At June 30, 2007, the vehicle had a net book value of \$31,736

9,516

#### **2007 G.O. Water Refunding Bonds:**

In 2007 the City issued \$585,000 G.O. Water Refunding Bonds, dated March 6, 2007 due in annual installments ranging from \$70,000 to \$95,000 through June 1, 2014 with interest ranging from 3.95% to 4.1% payable semi-annually. These bonds were issued to pay off the 1991 G. O. Water Revenue bonds of \$630,000.

585,000

#### **Arsenic Plant Note:**

In 2004 the City entered into a \$150,000 commercial loan to finance an Arsenic project. Annual payments of \$33,685 with interest of 3.99% are due through November 2009.

93,350

#### **Accrued Sick and Vacation:**

In accordance with contracts negotiated with the various employee groups of the City of Memphis, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements in the Water/Sewer Fund for \$3,339 and in the governmental activities for \$22,259.

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2007 (excluding compensated absences) are as follows:

Year	Governmental Activities				Business-type Activities			
	Library Loan		Police Vehicle		2007 G.O. Refunding Bonds		2004 Arsenic Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 9,342	\$ 4,369	\$ 9,516	\$ 590	\$ 70,000	\$ 23,496	\$ 29,956	\$ 3,730
2009	9,871	3,841	-	-	75,000	20,732	31,151	2,535
2010	10,441	3,271	-	-	85,000	17,770	32,243	1,299
2011	11,032	2,679	-	-	95,000	14,412	-	-
2012	11,661	2,050	-	-	90,000	10,660	-	-
2013-2014	24,266	2,069	-	-	170,000	10,456	-	-
	<u>\$ 76,613</u>	<u>\$ 18,279</u>	<u>\$ 9,516</u>	<u>\$ 590</u>	<u>\$ 585,000</u>	<u>\$ 97,526</u>	<u>\$ 93,350</u>	<u>\$ 7,564</u>

**CITY OF MEMPHIS, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**NOTE 9 - COMMUNITY DEVELOPMENT BLOCK GRANT:**

During the year, the City was appropriated \$25,500 Community Development Block Grant (CDBG) funding through Macomb County and expended \$4,500 of current and previously appropriated CDBG funding. At June 30, 2007, the City has \$21,000 available for future CDBG projects.

Macomb County and St. Clair County pays CDBG project providers directly. The Counties maintain administrative control over the funding, monitor the programs and report the programs in the County's Single Audit report.

**NOTE 10 - RESERVED/DESIGNATED FUND BALANCE:**

**Reserved Fund Balance –**

Fund Balance has been reserved for \$1,273 in the general fund to indicate the portion of Fund Balance not available, but reserved for improvements to the City Parks.

**Designated Fund Balance –**

The City Council has the power to designate or set aside all or a portion of unreserved fund balance for specific purposes. The following is a summary of the designations at June 30, 2007:

Unemployment Issues	\$ 5,000
Salvage	<u>2,180</u>
	<u>\$ 7,180</u>

**NOTE 11 – RISK MANAGEMENT NOTE:**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The City has purchased insurance coverage for each of these types of losses; however, the City would be responsible should the limit of coverages be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

**NOTE 12 - RETIREMENT PLAN:**

The City offers a SEP IRA defined contribution retirement plan to all full-time employees with at least one year of service. The City contributes four percent of covered payroll to the plan as established by City Council resolution. Employer contributions to the plan for the year ended June 30, 2007 totaled \$9,726.

**NOTE 13 - PRIOR PERIOD ADJUSTMENTS:**

Prior period adjustments were made in the Major and Local Street Funds for \$5,073 and \$1,510, respectively, to report the June payment that is received in August.

The Police Equipment and Replacement Fund shows a prior period adjustment of \$3,245 to adjust cash to actual at June 30, 2006.

A prior period adjustment was made in the general fund for \$9,897 to reflect the previous year's IRA contribution and other payables not recorded at June 30, 2006.

A prior period adjustment of \$29,101 has also been recorded in the governmental activities Statement of Activities to record only the portion of sick and vacation time that was vested.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF MEMPHIS, MICHIGAN

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 388,578	\$ 388,578	\$ 389,936	\$ 1,358
Licenses and permits	7,250	7,550	12,530	4,980
Intergovernmental -				
Federal/State	119,270	119,270	133,126	13,856
Local	37,500	26,700	26,773	73
Charges for services	141,600	143,800	154,647	10,847
Fines and forfeits	5,500	5,500	2,015	( 3,485)
Interest and rents	7,000	7,000	24,886	17,886
Other	10,450	15,914	19,058	3,144
	<u>717,148</u>	<u>714,312</u>	<u>762,971</u>	<u>48,659</u>
<b>Expenditures:</b>				
General Government -				
City Council	11,446	11,446	11,230	216
Youth Center	7,365	7,365	5,966	1,399
Elections	5,200	5,200	2,980	2,220
Assessor	6,550	6,550	6,178	372
Clerk/Treasurer	88,650	89,696	90,348	( 652)
City Hall	10,614	10,614	8,660	1,954
Planning	1,980	1,980	1,274	706
	<u>131,805</u>	<u>132,851</u>	<u>126,636</u>	<u>6,215</u>
Public Safety -				
Inspections	3,625	3,925	4,117	( 192)
Police department	214,563	217,527	211,261	6,266
Fire department	97,168	97,168	92,023	5,145
Crossing guard	7,002	7,002	6,717	285
	<u>322,358</u>	<u>325,622</u>	<u>314,118</u>	<u>11,504</u>
Public Works -				
Refuse collection	42,035	42,035	42,944	( 909)
Streetlighting	18,367	18,367	18,107	260
Department of public works	94,633	95,283	88,522	6,761
	<u>155,035</u>	<u>155,685</u>	<u>149,573</u>	<u>6,112</u>
Health and Welfare -				
Ambulance	3,000	3,000	3,000	-
Recreational and Cultural-				
Parks and recreation	8,133	12,833	12,951	( 118)
Library	9,560	9,560	9,585	( 25)
	<u>17,693</u>	<u>22,393</u>	<u>22,536</u>	<u>( 143)</u>
Debt Service -				
Repayment of Advance from other funds	25,500	25,500	-	25,500
Principal	18,302	18,302	17,878	424
Interest	5,514	5,514	5,938	( 424)
	<u>49,316</u>	<u>49,316</u>	<u>23,816</u>	<u>25,500</u>
Total Expenditures	<u>676,207</u>	<u>685,867</u>	<u>636,679</u>	<u>49,188</u>

**CITY OF MEMPHIS, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative) Continued</u>
	<u>Original</u>	<u>Final</u>		
Revenues over expenditures	<u>40,941</u>	<u>28,445</u>	<u>126,292</u>	<u>97,847</u>
<b>Other Financing Sources (Uses):</b>				
Transfers out	( 27,141)	( 27,141)	( 36,810)	( 9,669)
Transfers in	<u>-</u>	<u>1,696</u>	<u>1,696</u>	<u>-</u>
Total other financing sources (uses)	<u>( 27,141)</u>	<u>( 25,445)</u>	<u>( 35,114)</u>	<u>( 9,669)</u>
Net Change in Fund Balance	<u>13,800</u>	<u>3,000</u>	<u>91,178</u>	<u>88,178</u>
Fund Balance at beginning of year	345,804	345,804	345,804	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>( 9,897)</u>	<u>( 9,897)</u>
Fund Balance beginning of year, restated	<u>345,804</u>	<u>345,804</u>	<u>335,907</u>	<u>( 9,897)</u>
Fund Balance at end of year	<u><u>\$ 359,604</u></u>	<u><u>\$ 348,804</u></u>	<u><u>\$ 427,085</u></u>	<u><u>\$ 78,281</u></u>

Concluded

**CITY OF MEMPHIS, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
MAJOR STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 64,009	\$ 64,009	\$ 59,975	\$( 4,034)
Interest	2,000	2,000	5,450	3,450
	<u>66,009</u>	<u>66,009</u>	<u>65,425</u>	<u>( 584)</u>
<b>Expenditures:</b>				
Public Works -				
Administration	6,793	6,793	6,781	12
Maintenance	33,916	33,916	14,576	19,340
Traffic Services	2,900	2,900	539	2,361
Winter Maintenance	7,400	7,400	3,997	3,403
	<u>51,009</u>	<u>51,009</u>	<u>25,893</u>	<u>25,116</u>
Revenues over expenditures	15,000	15,000	39,532	24,532
<b>Other Financing (Uses):</b>				
Transfers out	<u>( 15,000)</u>	<u>( 15,000)</u>	<u>( 15,000)</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>24,532</u>	<u>24,532</u>
Fund Balance at beginning of year	123,218	123,218	123,218	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>5,073</u>	<u>5,073</u>
Fund Balance at beginning of year, restated	<u>123,218</u>	<u>123,218</u>	<u>128,291</u>	<u>5,073</u>
Fund Balance at end of year	<u><u>\$ 123,218</u></u>	<u><u>\$ 123,218</u></u>	<u><u>\$ 152,823</u></u>	<u><u>\$ 29,605</u></u>

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF MEMPHIS, MICHIGAN**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2007**

	Special Revenue Fund	Capital Projects Funds		
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement
<b>ASSETS</b>				
Cash and cash equivalents	\$ 92,284	\$ 24,491	\$ 119,629	\$ 20,165
Due from other governmental units - State	3,025	-	-	-
Due from other funds	3,497	-	-	-
Total Assets	<u>\$ 98,806</u>	<u>\$ 24,491</u>	<u>\$ 119,629</u>	<u>\$ 20,165</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accrued liabilities	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balance:</b>				
Reserved - Capital Projects	-	24,491	119,629	20,165
Unreserved - Undesignated	98,750	-	-	-
Total Fund Balance	<u>98,750</u>	<u>24,491</u>	<u>119,629</u>	<u>20,165</u>
Total Liabilities and Fund Balance	<u>\$ 98,806</u>	<u>\$ 24,491</u>	<u>\$ 119,629</u>	<u>\$ 20,165</u>

<u>Clerk/Treasurer Equipment and Replacement</u>	<u>Library Equipment and Replacement</u>	<u>Total</u>
\$ 79	\$ 3,190	\$ 259,838
-	-	3,025
<u>-</u>	<u>-</u>	<u>3,497</u>
<u>\$ 79</u>	<u>\$ 3,190</u>	<u>\$ 266,360</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>
79	3,190	167,554
-	-	98,750
<u>79</u>	<u>3,190</u>	<u>266,304</u>
<u>\$ 79</u>	<u>\$ 3,190</u>	<u>\$ 266,360</u>

# CITY OF MEMPHIS, MICHIGAN

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Fund	Capital Projects Funds		
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement
<b>Revenues:</b>				
Intergovernmental-				
State	\$ 22,022	\$ -		\$ -
Interest	3,586	1,157	5,082	865
Total Revenues	<u>25,608</u>	<u>1,157</u>	<u>5,082</u>	<u>865</u>
<b>Expenditures:</b>				
Current -				
Public Works	16,759	-	-	-
Revenues over expenditures	<u>8,849</u>	<u>1,157</u>	<u>5,082</u>	<u>865</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	15,000	-	22,751	10,026
Transfers Out	-	-	-	( 650)
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>-</u>	<u>22,751</u>	<u>9,376</u>
Net change in fund balances	<u>23,849</u>	<u>1,157</u>	<u>27,833</u>	<u>10,241</u>
Fund Balances at beginning of year	73,391	26,579	91,796	9,924
Prior period adjustments	1,510	( 3,245)	-	-
Fund Balances at beginning of year, restated	<u>74,901</u>	<u>23,334</u>	<u>91,796</u>	<u>9,924</u>
Fund Balances at end of year	<u><u>\$ 98,750</u></u>	<u><u>\$ 24,491</u></u>	<u><u>\$ 119,629</u></u>	<u><u>\$ 20,165</u></u>

<u>Clerk/Treasurer Equipment and Replacement</u>	<u>Library Equipment and Replacement</u>	<u>Total</u>
\$ -	\$ -	\$ 22,022
41	136	10,867
<u>41</u>	<u>136</u>	<u>32,889</u>
-	-	16,759
<u>41</u>	<u>136</u>	<u>16,130</u>
-	1,000	48,777
( 1,046)	-	( 1,696)
<u>( 1,046)</u>	<u>1,000</u>	<u>47,081</u>
<u>( 1,005)</u>	<u>1,136</u>	<u>63,211</u>
1,084	2,054	204,828
-	-	( 1,735)
<u>1,084</u>	<u>2,054</u>	<u>203,093</u>
<u>\$ 79</u>	<u>\$ 3,190</u>	<u>\$ 266,304</u>

**CITY OF MEMPHIS, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
LOCAL STREET FUND  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental -				
State	\$ 19,695	\$ 19,695	\$ 22,022	\$ 2,327
Interest	500	500	3,586	3,086
	<u>20,195</u>	<u>20,195</u>	<u>25,608</u>	<u>5,413</u>
<b>Expenditures:</b>				
Public Works -				
Administration	2,688	2,688	2,795	( 107)
Maintenance	24,657	24,657	9,862	14,795
Traffic Services	650	650	101	549
Winter Maintenance	7,200	7,200	4,001	3,199
	<u>35,195</u>	<u>35,195</u>	<u>16,759</u>	<u>18,436</u>
Revenues over (under) expenditures	( 15,000)	( 15,000)	8,849	23,849
<b>Other Financing Sources:</b>				
Transfers in	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>23,849</u>	<u>23,849</u>
Fund Balance at beginning of year	73,391	73,391	73,391	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>1,510</u>	<u>1,510</u>
Fund Balance at beginning of year, restated	<u>73,391</u>	<u>73,391</u>	<u>74,901</u>	<u>1,510</u>
Fund Balance at end of year	<u><u>\$ 73,391</u></u>	<u><u>\$ 73,391</u></u>	<u><u>\$ 98,750</u></u>	<u><u>\$ 25,359</u></u>

**CITY OF MEMPHIS, MICHIGAN**

**TAX RECEIVING AGENCY FUND**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
<b>Assets:</b>				
Cash	<u>\$      6,542</u>	<u>\$  1,091,605</u>	<u>\$  1,083,728</u>	<u>\$     14,419</u>
<b>Liabilities:</b>				
Undistributed taxes	<u>\$      6,542</u>	<u>\$  1,091,605</u>	<u>\$  1,083,728</u>	<u>\$     14,419</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the City Council  
City of Memphis, Michigan

We have audited the financial statements of the governmental activities of City of Memphis, Michigan as of and for the year ended June 30, 2007, and have issued our report thereon dated August 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Memphis, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The following deficiency in internal control is considered to be a material weakness:

**Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.**

Management routinely prepares internal financial information to assess operations and the financial position of the City on an ongoing basis. Although the internal financial information is useful to management, it is not presented in accordance with generally accepted accounting principles. The City contracts with us, the auditors, to prepare adjustments to convert the financial statements from a modified cash basis to the modified accrual or accrual basis, to record the information necessary for the GASB 34 adjustments, and to draft the financial statements, including all necessary notes, in

accordance with generally accepted accounting principles. (During our audit we proposed various audit entries, some of which were significant to the financial statements.)

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviation from generally accepted accounting principles and the Township would not be in a position to detect them.

The following deficiencies in internal control are considered to be significant deficiencies:

**The billing and receipting functions should be reviewed.**

During the audit we noted that the same individual who is responsible for processing and adjusting the utility bills also has the ability to accept payments on the accounts. Allowing one person to process bills, adjust bills, and receipt payments creates the opportunity for discrepancies.

While we understand the constraints of a small office, we would recommend that any adjustments to the utility bills be approved by either two people or by someone independent of the billing/receipting functions. We would also recommend that the utility billing system be interfaced with the general ledger and the utility billing receivable reports be reconciled to the balance outstanding on the general ledger monthly.

We would further recommend that all voided receipts be reviewed and approved by either two people or by someone independent of the receipting function.

**The Tax Account Activity should be recorded on the general ledger.**

Currently the Treasurer maintains a ledger of the activity in the tax account, however, the activity is not recorded on the City's general ledger. To increase controls over this area we would recommend that the activity of the tax fund – receipts received and disbursements made – be recorded on the general ledger and follow the same process for other receipts and disbursements of the City.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The City of Memphis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Memphis in a separate letter dated August 20, 2007.

This report is intended solely for the information and use of management, the City of Memphis' City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants,

August 20, 2007

## MANAGEMENT LETTER

To the City Council  
City of Memphis, Michigan

As you know, we have recently completed our audit of the basic financial statements of the City of Memphis, Michigan as of and for the year ended June 30, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the City's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated August 20, 2007, the conditions described below are not considered significant deficiencies or material weaknesses:

**A formal capitalization policy should be adopted.**

We recommend that the Council establish a written capitalization policy indicating assets that should be capitalized and depreciated over the life of the assets and those that should be expensed in the current period.

**Consider approving the budget at the department/activity level.**

During our audit we noted that the City approves its budget at the account level. By approving it at this level any expenditure in excess of the amount budgeted for the account is a violation of Public Act 621. Also, in order not to exceed the budget amount it requires a number of budget amendments throughout the year. The Michigan Department of Treasury and our office recommend that the budget be approved at the department level. The City Council can still review the proposed account level budget, however when the budget resolution can be at the department level. This will eliminate the need for budget adjustments if the department does not exceed its budget in total.

This report is intended for the information of management and the City of Memphis' City Council and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,



August 20, 2007